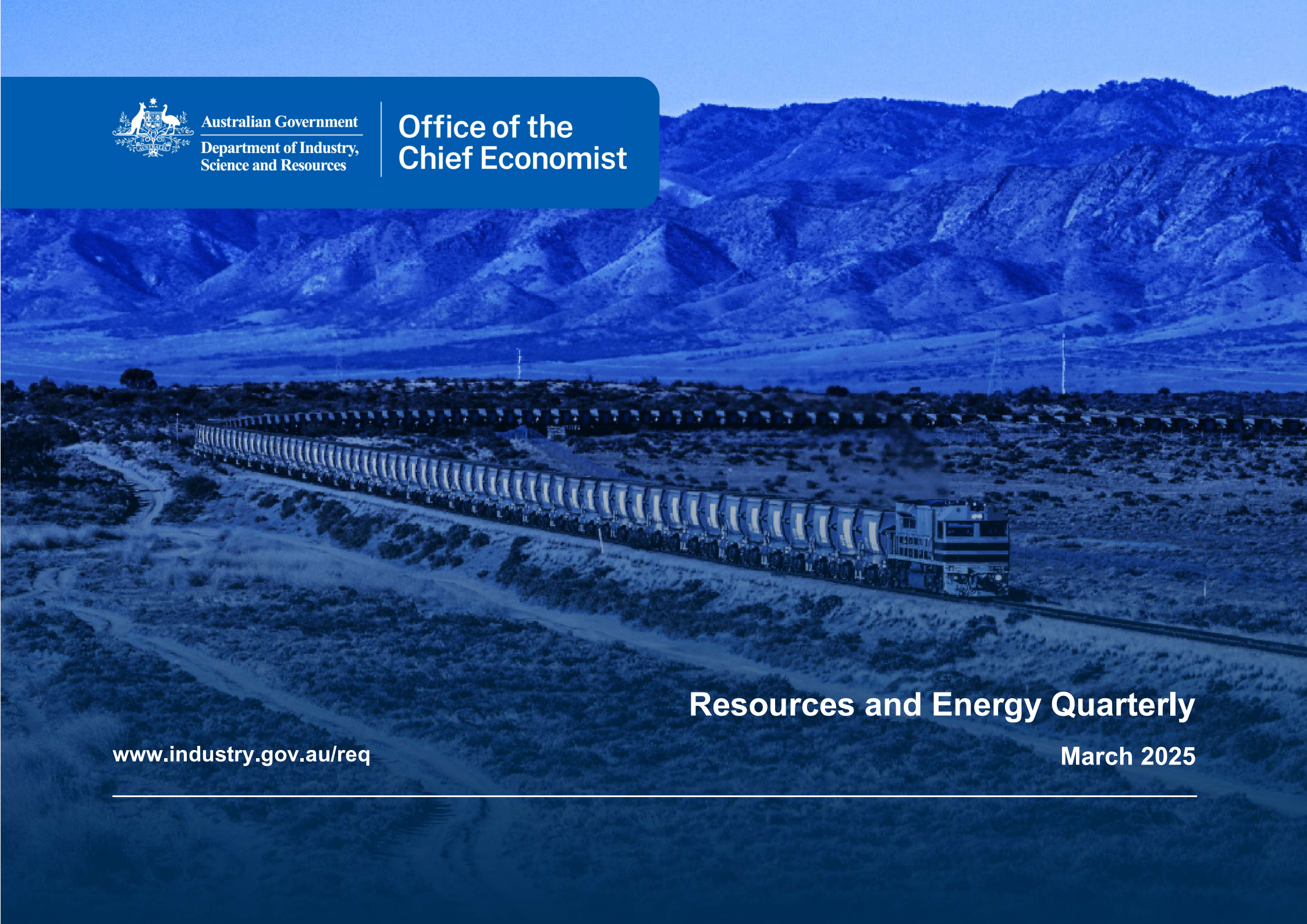

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Contents

Executive Summary

Australian resource and energy commodity exports are forecast to fall to $387 billion in 2024–25 from $415 billion in 2023–24. Further modest falls in earnings are likely over the five-year outlook period, steadying at $343 billion near the end. The two-year outlook has improved since the December 2024 *Resources and Energy Quarterly* (REQ), driven by the impact of a lower-than-expected AUD/USD exchange rate and higher than expected prices for iron ore, gold and LNG.

Modest global economic growth is expected over the outlook period, as lower inflation allows some central banks to make further small cuts in official interest rates. Trade actions and retaliatory measures will likely detract from global growth and may further geopolitical tensions. Geopolitical tensions should sustain safe haven demand for gold and lift commodity price volatility, especially in energy commodities. In volume terms, most of Australia's resource exports are likely to show a modest pick up through the outlook period.

However, the impacts of trade and retaliatory actions on supply chains and trade patterns will likely be larger than on growth. Supply chain impacts will be compounded by efforts to increase sovereign manufacturing capability.

Increased global overcapacity and price heterogeneity are likely results at the global level. Changes to steel capacity and production in China will impact key Australian resources exports (iron ore and metallurgical coal). However, Australia's price and quality advantages in these raw materials means diversion to other Asian markets will likely outweigh volume decreases.

China remains a leader in a number of sectors, including solar panels, batteries, electric vehicles and metal refining. These are among the fastest growing in the world and China will likely continue to find markets for those products. This will also likely be supported by action by the Chinese Government to mitigate the impacts of changes in foreign manufacturing and industrial policies.

The energy transition will continue, although the pace remains uncertain. Policy plays a role — net zero progress may slow in some nations, reducing demand for inputs to low emissions technologies while extending fossil fuel demand. However, technology (adoption rates and innovation) will remain a key determinant of the composition and scale of commodity demand. For example, advances in battery technology are rapidly lifting efficiency, lowering cost and addressing practical barriers to mass market entry. A technical breakthrough in EV charging times in early 2025 could rapidly accelerate EV adoption rates, although the recent slump appears likely to persist in the short to medium term.

Irrespective of the pace of the energy transition, fossil fuel demand will persist. Asia remains the core growth market for LNG and seaborne coal.

The digital transition will also continue to shape commodity markets and Australia's place in them. Digital technologies' need for critical minerals inputs is contributing to the increasing focus on Australia's critical mineral export potential, which is explored in a special chapter of this edition of the REQ. Increasing energy demand from artificial intelligence and data centres is influencing energy commodity and base metal markets, especially for uranium, copper and its substitute, aluminium.

The REQ's earnings forecasts remain sensitive to the AUD/USD exchange rate. A two cent decline in the AUD/USD increases forecast 2025–26 export revenues by AUD 7.5 billion. The REQ adopts consensus on the outlook for the AUD/USD, which is for the AUD/USD to appreciate over the outlook period.

Overview

Australia's resources and energy sector

Contributes around **11.4% of GDP**

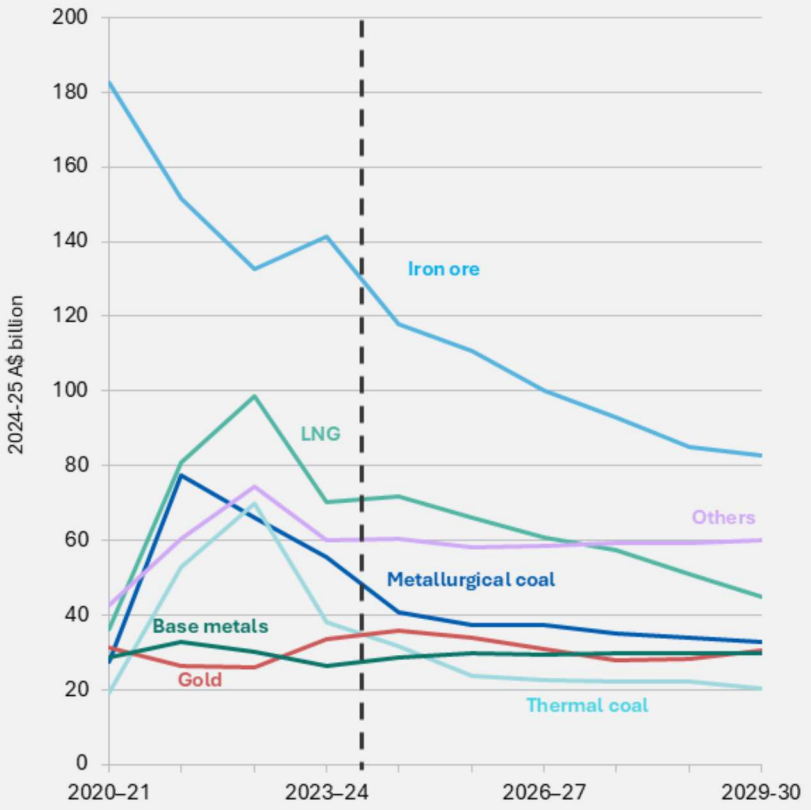
Makes up around **two-thirds** of Australia's total merchandise exports

Directly employs around 300,000 people

Outlook

- Near-term outlook for resource and energy exports is for further normalisation
- World GDP growth outlook is improving in the near-term
- Energy transition continues
- Investment in new Australian deposits and mines to grow

Australia's resources & energy exports



Source: ABS; DISR; OCE

1.1 Summary

- Modest global economic growth is expected over the outlook period, as lower inflation allows some central banks to make further small cuts in official interest rates. Trade actions and retaliatory measures will likely detract from global growth and may further geopolitical tensions.
- Trade actions and retaliatory measures will also shape supply chains, which were already impacted by policy efforts to boost resilience in the wake of COVID-induced disruptions. Continued relocation of global manufacturing capacity will likely worsen global overcapacity.
- The energy transition will continue, although the pace remains uncertain. Policy plays a role, but technology (adoption rates and innovation) will remain the key determinant of commodity demand.
- Australian resource and energy commodity exports are expected to fall to $387 billion in 2024–25 from $415 billion in 2023–24. Modest further falls are likely over the outlook period, with exports steadying at about $343 billion (or $300 billion in real terms) as the decade ends.

1.2 Macroeconomic, geopolitical and policy factors

Rising trade barriers to cut world growth slightly, lower commodity demand

Easing monetary conditions in major economies are likely to see the world economy grow at close to trend rates over the outlook period. However, changes in trade and industrial policy in early 2025 have raised uncertainty over the global growth outlook.

With trade barriers still being negotiated, and the possibility of retaliatory measures, it will take time for the full impact on the world economy to become apparent. Ultimately, world economic growth is likely to be slightly lower and inflation slightly higher (at least in the short term) than they might otherwise have been.

The impacts of trade and retaliatory actions on supply chains and trade patterns will likely be larger than on growth. Supply chain impacts will be compounded by efforts to increase sovereign manufacturing capability, which will continue the relocation of global manufacturing capacity. This will lift manufacturing activity in some nations, but lower capacity utilisation in others. Global overcapacity in manufacturing will likely worsen. As a raw material supplier, Australia will have some losses and gains and see changing demand patterns amongst our trade partners. Australia's price and quality advantages in these raw materials means diversion to other Asian markets will likely outweigh volume decreases.

Emerging economies are forecast to continue their relatively strong growth during the outlook period. These nations will consume more resource and energy commodities, with some produced at home and some imported.

The move to net zero will continue, impacting commodities

The energy transition will continue, although the pace remains uncertain. Policy plays a role — net zero aims may slow in some nations, cutting demand for inputs to low emissions technologies while extending fossil fuel demand. However, technology (adoption rates and innovation) will remain a key influence on the composition and scale of commodity demand. For example, advances in battery technology are rapidly lifting efficiency, lowering cost and addressing practical barriers to mass market entry. A technical breakthrough in EV charging times in early 2025 could rapidly accelerate EV adoption rates, although the recent slump appears likely to persist in the short to medium term.

New applications in low emission technologies are making rapid advances: extended range electric vehicles (EREVs) which house a small petrol generator surged in market share in China in 2024, due to their vastly longer range and lower cost than pure/hybrid EVs.

Rising use of artificial intelligence is likely to lift energy demand

A surge in artificial intelligence (AI) use is expected over the outlook period, with implications for resource and energy commodity demand. Despite promising efficiency gains, data centres that train and deploy large AI models require vast amounts of electricity.

The faster a nation can expand its electricity supply — also requiring large amounts of copper cable — the more AI it can deploy to gain a competitive advantage.

Geopolitical tensions to persist, lifting price volatility and gold demand

Geopolitical tensions are expected to remain elevated over the outlook period, worsened by rising trade barriers. Geopolitical tensions should sustain safe haven demand for gold and lift commodity price volatility, especially among energy commodities.

Australian dollar weakness will lift our competitiveness and export values

As a major commodity supplier, Australia — and so the Australian dollar — is seen as vulnerable to the growing push by some nations to compete with Chinese manufactures, especially in their own domestic markets. Resulting AUD weakness acts as a partial cushion against lower export values since, with most commodities priced in US dollars, it acts to boost AUD export values above where they would otherwise be.

1.3 Export values

Resource and energy exports are forecast at $387 billion in 2024–25

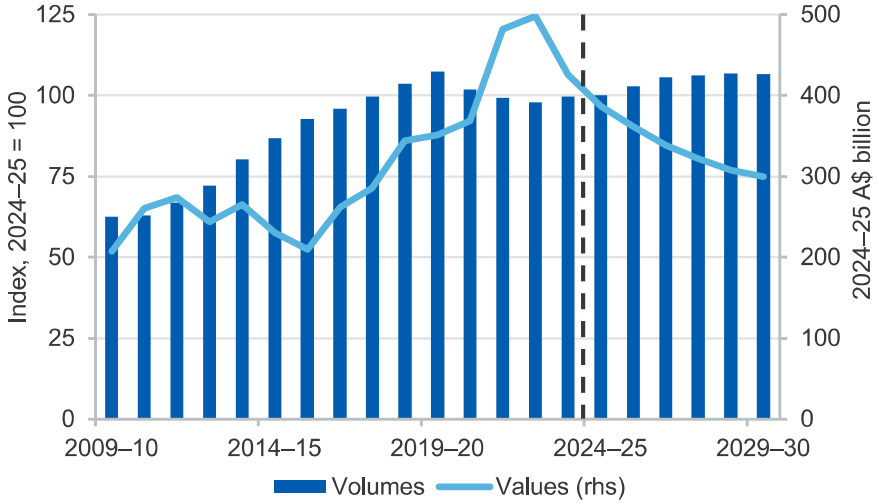
Over the past four quarters, lower prices on resource and energy export values has more than offset higher volumes. In the March quarter 2025, the Resources and Energy Export Values Index fell 2.6% from a year ago.

The impact of lower US dollar prices for our resource and energy exports is forecast to see Australia's exports fall to $387 billion in 2024–25, down 6% from $415 billion in 2023–24 (Figure 1.1). The 2024–25 estimate represents an upward revision from the December REQ, which forecast the fall at around 10%. US dollar prices have been higher than expected and the decline in the AUD/USD have contributed to the upward revision.

In real terms, exports are forecast to fall to $300 billion by 2029–30. Rising commodity supply and moderate growth in commodity demand is expected to drive US dollar price falls, which will more than offset the impact of continued minor gains in export volumes (Figure 1.2).

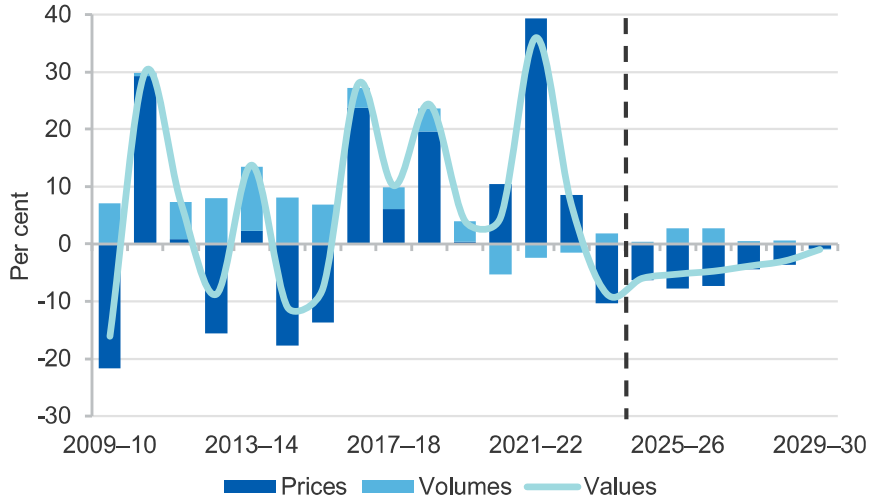
Over the outlook period, the value of energy exports is set to return to moderate levels after the extremely high levels seen during the period from 2021–22 to 2022–23. The high prices set during that period — due to the COVID-19 pandemic, bad weather and the fallout from Russia's

Figure 1.1: Australia's resource and energy export values/volumes



Source: Department of Industry, Science and Resources (2025)

Figure 1.2: Annual growth in Australia's resources and energy export values, contributions from prices and volumes



Source: Department of Industry, Science and Resources (2025)

invasion of Ukraine — encouraged a rise in energy supply. Combined with relatively moderate world economic growth and energy demand, better production conditions have since seen prices fall back. Prices are forecast to weaken modestly: rising supply will add to the impact of relatively weak demand, as the energy transition lowers fossil fuel demand.

Overall, the value of resource commodity exports is also set to fall back, albeit less than energy commodity export values. The value of exports of gold and base metals (especially copper) are set to hold close to current levels. Lithium and nickel exports are expected to stabilise as prices stop falling. Iron ore will remain the mainstay of Australian commodity exports.

1.4 Prices

Most commodity prices set to decline modestly

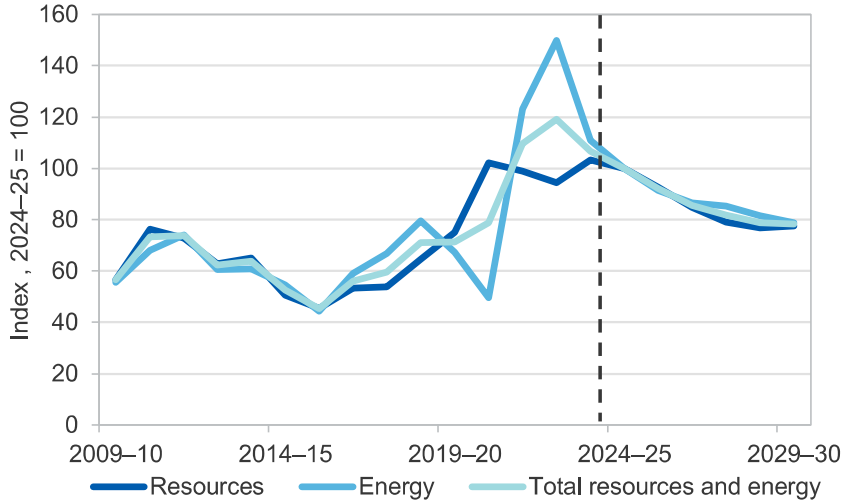
Resource and energy prices have generally drifted down further since the December 2024 REQ (Figure 1.3). The soft world economy and improved supply have lowered prices, with gold a notable exception. Prices are expected to weaken further over the outlook period. A mild pick up in the world economy would improve commodity demand, but rising global supply will more than offset the impact on prices for most commodities.

Iron ore prices have steadied at around US$100 a tonne (CFR) in recent months after falling through much of 2024. Over the outlook period, prices are expected to decline further due to strong growth in global supply and lower demand from China's steel sector.

Metallurgical coal prices have fallen about 10% from December 2024 levels to US$185 a tonne, as weak Chinese steel production weighed on domestic coal prices. Prices are expected to decline in real terms through to 2030 but remain steady in nominal terms, as falling Chinese demand is offset by increasing steel making activity in India and Southeast Asia.

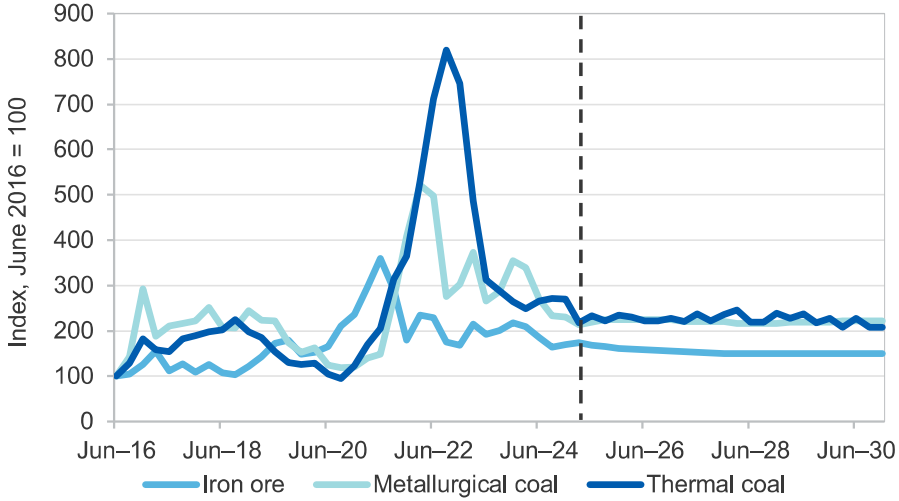
Thermal coal prices have declined further in recent months, as inventories build on the back of soft demand and rising supply. The energy transition is set to see demand remain soft over the outlook period. A lack of investment in new and existing mine capacity will slow the price falls.

Figure 1.3: Resource and energy export prices, A$ terms



Source: Bloomberg (2025); Department of Industry, Science and Resources (2025).

Figure 1.4: Bulk commodity prices



Source: Bloomberg (2025); Department of Industry, Science and Resources (2025)

The **gold** price has been very strong in recent months, rising to a record of over US$3,000 an ounce. This was due to increased demand from investors and exchange traded funds on the back of global uncertainty. Prices are forecast to increase to 2026 and then moderate but will remain relatively high over the outlook period.

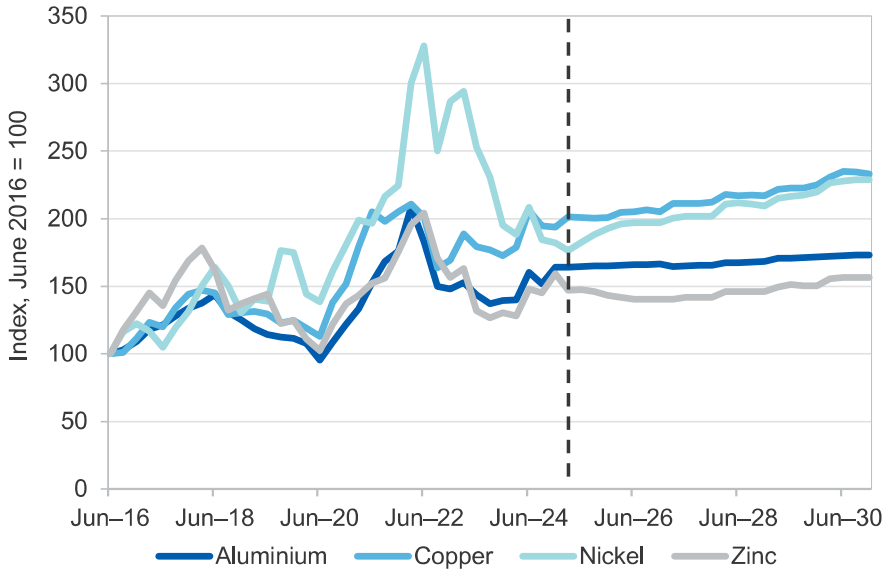
The **(Brent) oil** price has been highly volatile since the December quarter 2024, rising to US$80 per barrel from US$72 per barrel, then falling back to US$68 per barrel. Geopolitical and trade tensions have driven the volatility. Oil prices are expected to drift lower over the outlook period, as supply rises and the switch to EVs reduces demand. Seasonal demand and minor supply disruptions have held **LNG** prices up at about US$15/MMbtu over recent months. Large volumes of new US and Qatari supply will see prices steadily fall to about US$8.50/MMbtu (in real terms) by 2030. Price volatility across LNG markets is also likely to ease due to rising supply, though this may not become apparent until post 2026.

Copper prices have risen by about 11% since the start of 2025, reaching a peak of US$9,734 a tonne in early March. Over the outlook period, prices are expected to rise to about US$9,870 a tonne by 2030 in real terms, due to strong growth in copper demand and a likely tight concentrate market. **Aluminium** prices are relatively high, helped by the surge in the alumina price in 2024. While the alumina price is expected to fall back as supply recovers, the aluminium price should hold up. The demand for aluminium should remain strong in the move to low emission technologies, but supply could be constrained by high costs, particularly for power. **Zinc** prices are expected to average about US$2,800 a tonne in 2025 and then fall to US$2,600 a tonne by 2028 due to slower demand. Zinc is forecast to be US$2,700 a tonne (real terms) in 2030, due to solid demand for galvanized steel in the manufacturing and construction sectors.

Nickel prices have remained close to five-year lows so far in 2025 (averaging about US$15,500 a tonne) on continued strong growth in global mine and refined supply. This oversupply is forecast to persist over the next few years and contain prices at about US$16,500 a tonne over the outlook period.

Spodumene prices appear to have bottomed out around September 2024 and were at US$815 a tonne in February 2025. Lithium hydroxide prices have continued to fall and were at US$8,950 a tonne in late February 2025. We expect a modest price recovery in the outlook period, as demand rises and supply is trimmed by curtailments at high-cost operations.

Figure 1.5: Base metal prices



Source: Bloomberg (2025); Department of Industry, Science and Resources (2025)

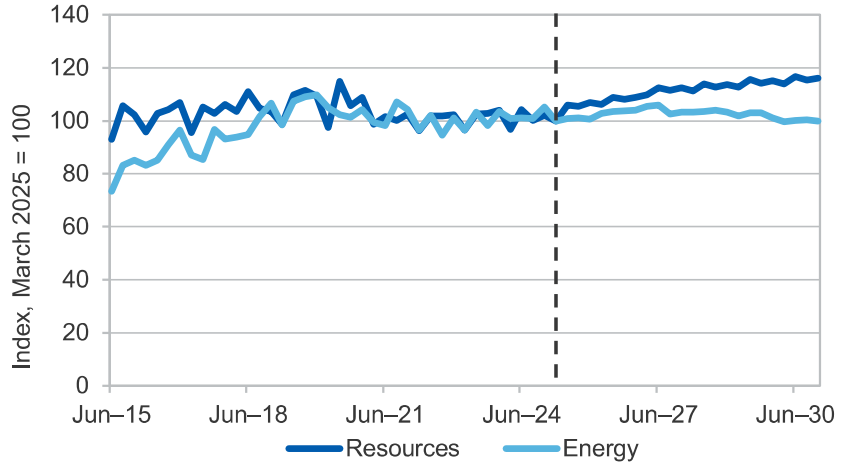
1.5 Export volumes

Resource commodity exports rising, but energy commodities flat

The Resources and Energy Export Volumes Index (preliminary estimate) fell 4% in the March quarter 2025 but was up 1% on March quarter 2024. Resource commodity volumes rose 5.3% in the year to the March quarter 2025, but energy export volumes fell almost 4% (Figure 1.6). Better weather conditions and easing workforce problems have helped resource production, while lower prices have reduced energy production.

In volume terms, most resource exports are likely to show a modest pick up through the outlook period. An improvement in world economic growth and the global energy transition will boost resource use. Growth in the volume of energy exports will be much slower than resource exports. The net zero transition will constrain fossil fuel use, and Australia may face increased competition in the markets for coal and LNG from Russia, Canada, Indonesia and the United States.

Figure 1.6: Resource and energy export volumes



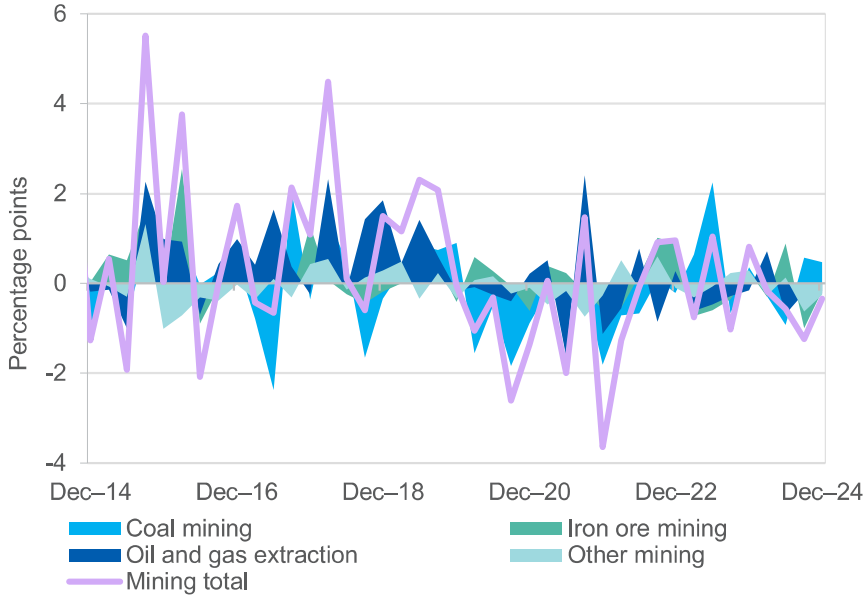
Source: Department of Industry, Science and Resources (2025)

1.6 Contribution to growth and investment

Mining output was weaker in the December quarter and 2024 overall

Australia's real GDP rose by 0.6% in the December quarter 2024, up 1.3% from a year before. Mining value-added fell by 0.3% in the quarter to be down 2.4% from the December quarter 2023 (Figure 1.7). Of the different commodity sectors, 'coal mining' was the only one to record growth, driven by higher thermal coal output. Maintenance activity adversely impacted iron ore mining, and low prices drove noticeable falls in nickel and lithium output (categorised by 'Other mining'). Exploration and Mining Support Services declined noticeably. Disruptions to LNG operations caused a fall in output in the Oil and Gas Extraction sector.

Figure 1.7: Contribution to quarterly growth, by sector



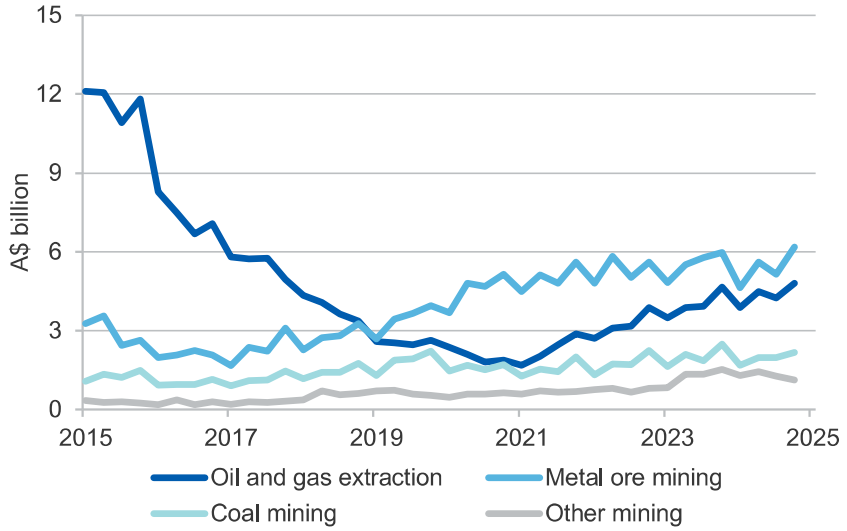
Notes: Chart data is in nominal terms, seasonally adjusted.
Source: ABS (2025) Private New Capital Expenditure and Expected Expenditure, 5625.0

Quarterly mining investment is levelling off

The latest ABS Private New Capital Expenditure and Expected Expenditure survey shows that Australia's resources and energy industries invested $13.0 billion in the December quarter 2024, unchanged from the September quarter 2024 but down 2.7% from the December quarter 2023. Total capital spending rose in quarterly terms for metal ore and oil and gas mining but spending by 'other mining' declined (Figure 1.8).

Expenditure for plant and equipment rose by 1.9% in the December quarter, while investment in buildings and structures fell by 0.7% (Figure 1.9). Both categories have recovered significantly from the lows of 2021. Spending on plant and machinery has accounted for a steadily rising share of total investment spending since 2017. However, in recent years, spending on buildings and structures has started to correlate more closely with spending on plant and equipment.

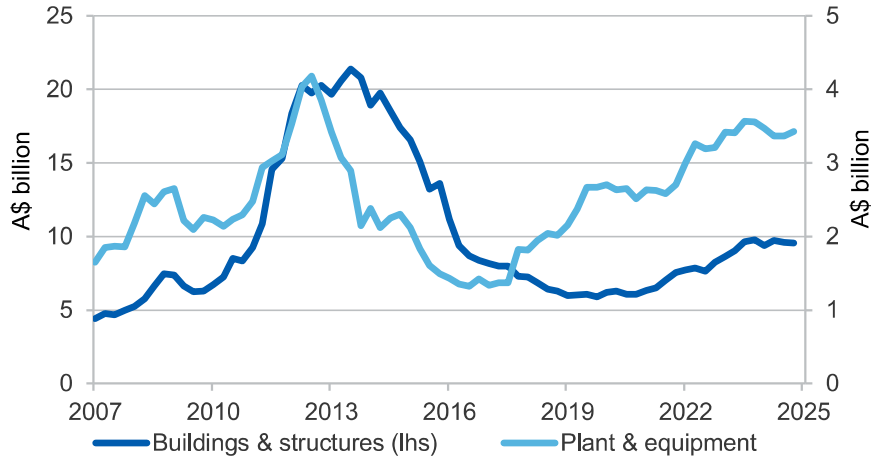
Figure 1.8: Mining capex by commodity, not seasonally adjusted



Notes: Other mining includes non-metallic mineral mining and quarrying and exploration and other mining support services; chart data is in nominal, original terms

Source: ABS (2025) Private New Capital Expenditure and Expected Expenditure, 5625.0

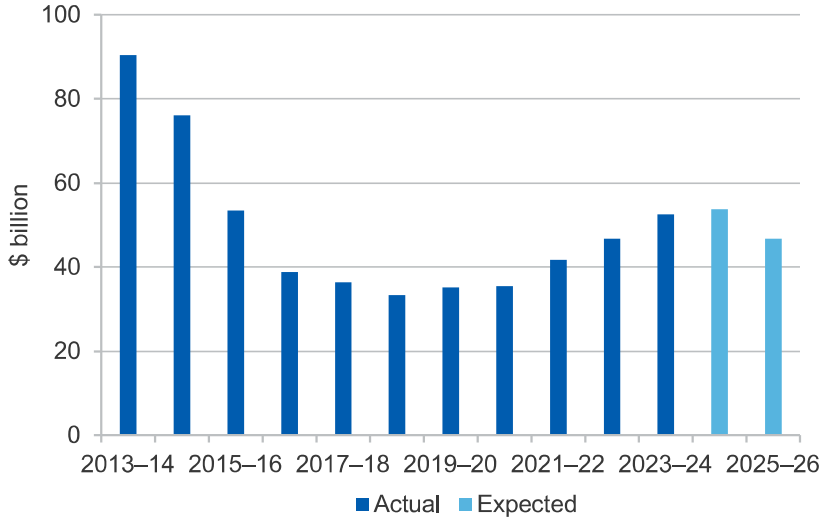
Figure 1.9: Mining industry capital expenditure by type, quarterly



Notes: Chart data is in nominal terms, seasonally adjusted.

Source: ABS (2025) Private New Capital Expenditure and Expected Expenditure, 5625.0

Figure 1.10: Mining industry capital expenditure, fiscal year



Notes: Chart data is in nominal terms

Source: ABS (2025) Private New Capital Expenditure and Expected Expenditure, 5625.0

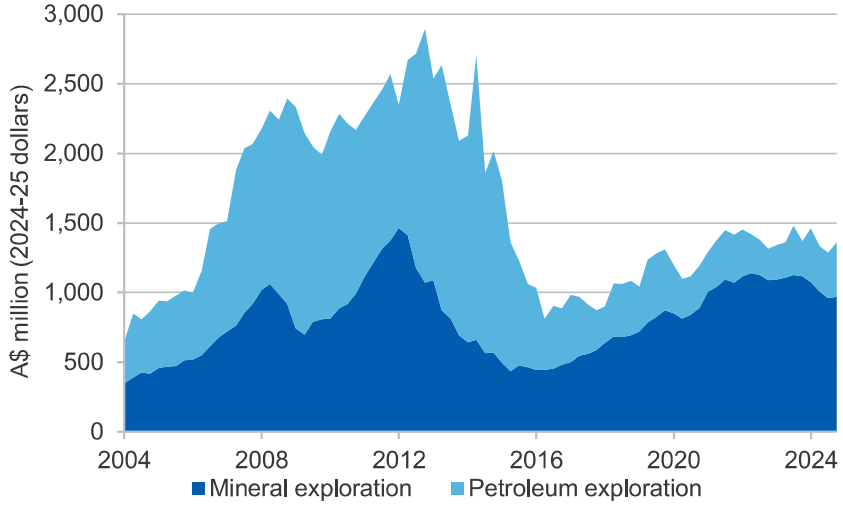
Total mining industry investment forecast to rise in 2024–25

The sixth estimate of total mining industry investment in 2024–25 shows growth of 12% from 2023–24 (Figure 1.10). The first estimate for 2025–26 ($47 billion) points to a decline in capital spending, but estimates are typically revised up over time. In the outlook period, capital expenditure in the lithium and nickel sectors are expected to be weak, as miners react to ongoing relatively weak prices.

Exploration spending steady in 2024, as declining mineral exploration was offset by growth in petroleum exploration

Australian mineral and petroleum exploration expenditure tracked steady in 2024, reaching $5.3 billion. Expenditure increased in both onshore (up 33%) and offshore (up 34%) petroleum exploration, however levels remained well below the pre-2015 peak (Figure 1.11). Mineral exploration spending offset much of this growth, declining by 7% to $3.9 billion.

Figure 1.11: Australian exploration expenditure, quarterly



Notes: Exploration expenditure is in real, seasonally adjusted terms.
Source: ABS (2025)

Annual rises in exploration expenditure were reported for iron ore (up 9.9%) and uranium (up 53%), but spending fell across all other mineral categories. Commodities accounting for the largest share of the fall were base metals, including nickel (down by 38%) and copper (down by 19%), other minerals (including lithium, down by 22%) and gold (down by 11%).

Over the last twelve months, mineral exploration expenditure has declined for critical minerals such as lithium, cobalt and nickel, due to recent sharp price declines. This follows strong price and exploration expenditure growth for these minerals through 2022-23. By contrast, gold exploration has fallen from a peak in 2021 despite prices rising to record levels.

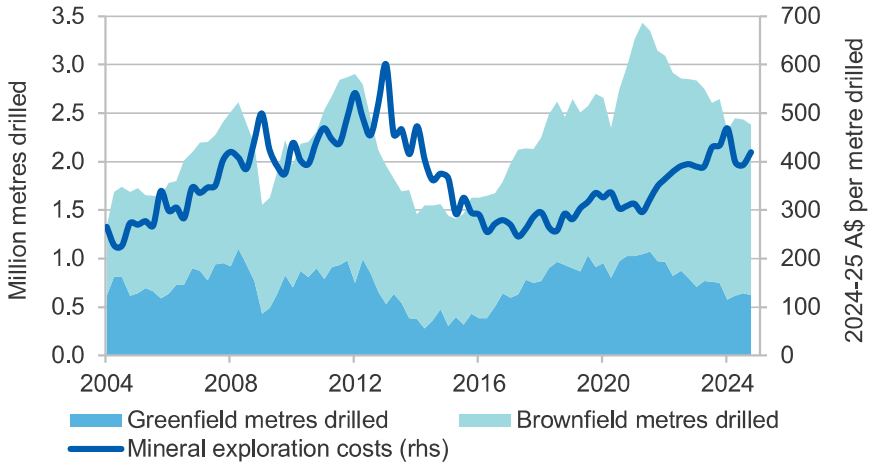
Within exploration project stages, declines were reported for both greenfield and brownfield expenditure in 2024, an extension of trends over the past few years (Figure 1.12). Greenfield exploration activity (measured by metres drilled) has declined by 40% from a peak in 2021, while brownfield activity has declined by 22% over the same time.

Increased exploration costs appear to be contributing to this decline. Average expenditure per metre drilled has increased in real terms by 31% since 2021 — although they remain below levels reached during the peak of the mining boom (Figure 1.12). Tightened financial conditions and economic uncertainty have also reduced investment flows into the exploration sector — particularly for junior mineral exploration companies, and greenfield exploration (which is higher risk).

Relatively buoyant metal prices and a steady easing in global financial conditions (as monetary policy loosening is continued in some major nations) may help support renewed exploration activity. The rising use of new technologies (such as advanced data science/AI and pre-competitive geoscience) may assist in mitigating the cost burden of drilling programs.

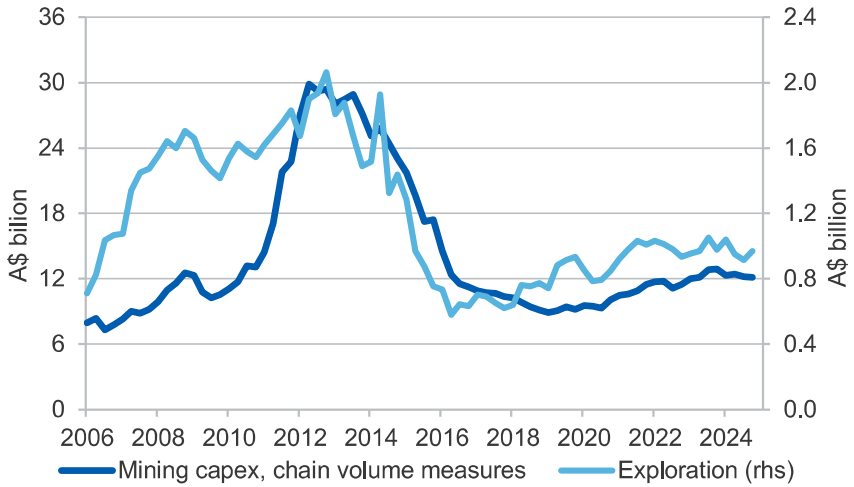
Exploration spending is a leading indicator of broader capital investment in the sector, so prolonged rises/declines in exploration spending can give some indication of future trends in mining investment (Figure 1.13). With exploration holding close to the post-COVID average, we might expect mining capex to also hold near current levels (at the $12 billion mark).

Figure 1.12: Metres drilled for mineral exploration and costs (in real terms) implied by expenditure per metre drilled



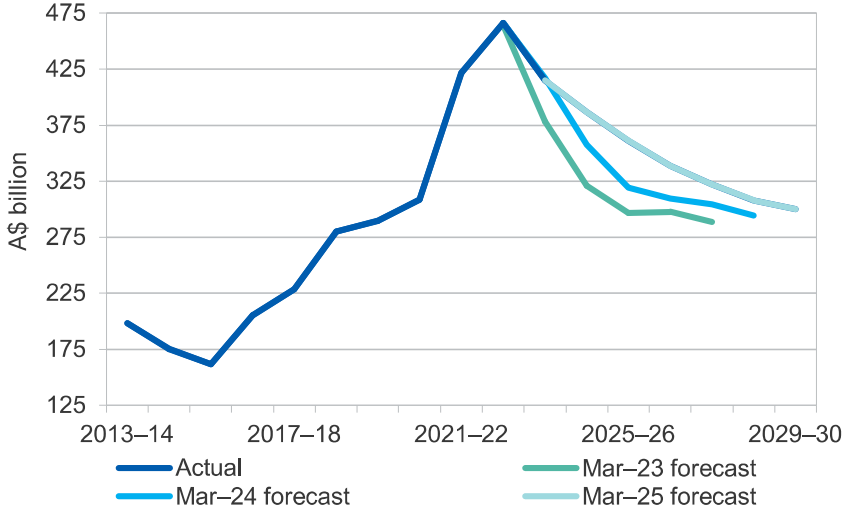
Notes: Metres drilled are in seasonally adjusted terms
Source: ABS (2025); Department of Industry, Science and Resources (2025)

Figure 1.13: Mining capex vs exploration spending, quarterly



Notes: Exploration expenditure is in seasonally adjusted terms
Source: ABS (2025)

Figure 1.14: Resource and energy exports, real terms by publication



Source: Department of Industry, Science and Resources (2025)

1.7 Revisions to the outlook

AUD/USD weakness and gold strength helping to hold up export values

The forecast for Australia's resources and energy exports in 2024–25 is $15 billion higher than the forecast contained in the December 2024 *Resources and Energy Quarterly* (Figure 1.14). The forecast for 2025–26 (nominal prices) is $23 billion higher than in the same report.

Compared to the March quarter 2024 REQ, export values later in the outlook period are also holding up better than expected. The forecast for 2028–29 exports is $8 billion above the March 2024 REQ projection.

The 2024–25 and 2025–26 upwards revisions and the projections further out the forecast period have been largely driven by the impact of a weaker than expected exchange rate against the US dollar (AUD/USD) and higher prices for iron ore and LNG. As always, the exchange rate assumption (taken from Consensus forecasts) plays an important role in the projections. In broad terms, a two cent move in the AUD/USD has a $7.5 billion impact on 2025–26 Australian dollar export revenues.

Table 1.1: Outlook for Australia's resources and energy exports in nominal and real terms

Exports (A$m)	2023–24	2024–25[f]	2025–26[f]	2026–27[f]	2027–28[f]	2028–29[f]	2029–30[f]	% change CAGR[f]
Resources and Energy	414,991	386,664	373,371	359,565	350,554	343,682	343,215	-3.1
– real[b]	425,447	386,664	361,270	338,399	321,872	307,865	299,949	-5.7
Energy	180,151	163,169	149,735	145,370	140,891	134,521	127,573	-5.6
– real[b]	184,690	163,169	144,882	136,813	129,363	120,502	111,491	-8.1
Resources	234,840	223,495	223,636	214,195	209,663	209,160	215,642	-1.4
– real[b]	240,757	223,495	216,388	201,587	192,509	187,363	188,458	-4.0

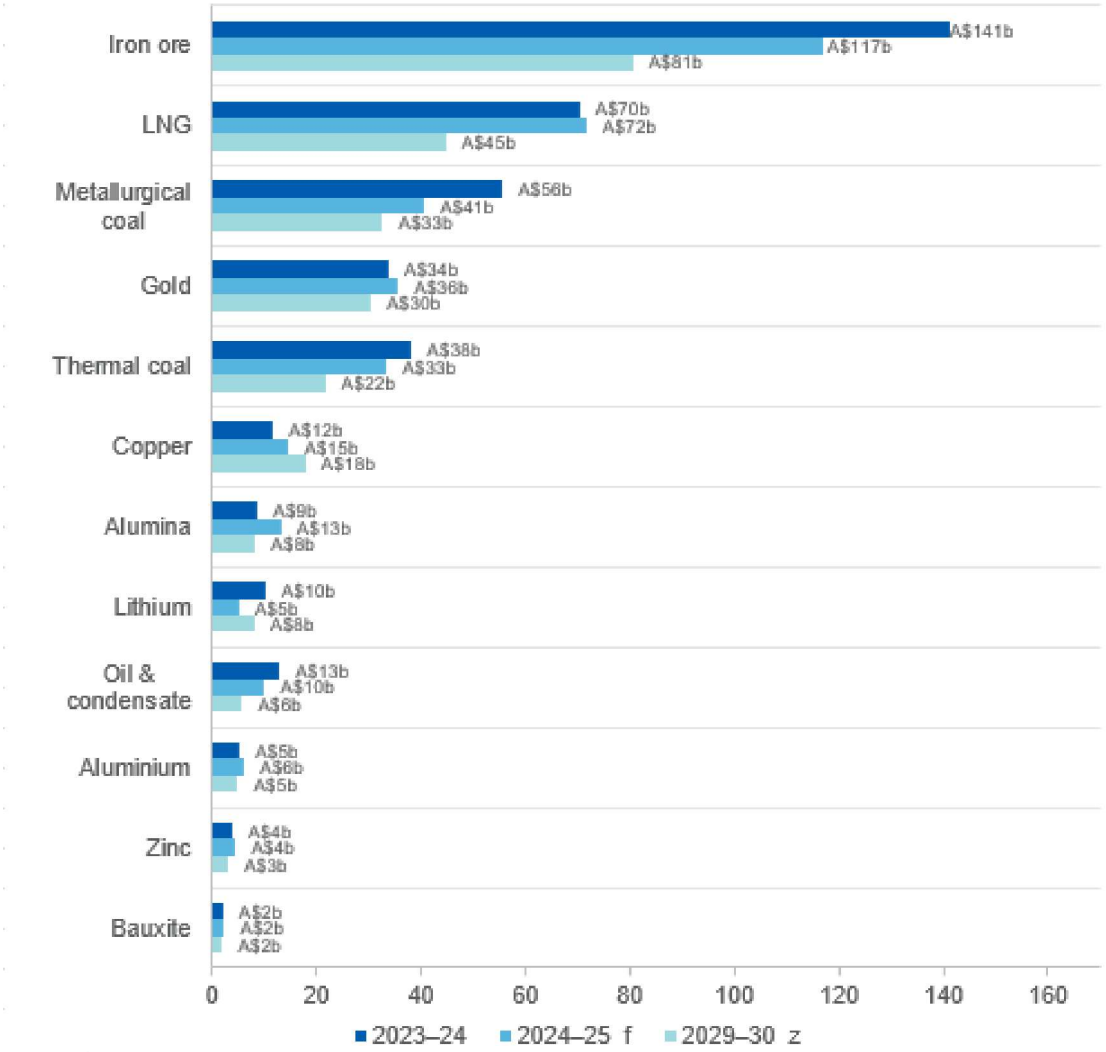
Notes: **b** In 2024–25 Australian dollars; **f** forecast.
Source: ABS (2025); Department of Industry, Science and Resources (2025).

Table 1.2: Australia's resources and energy exports, selected commodities

		Prices				Export volumes			Real export values A$b, 2024-25 prices		
	Unit	2023–24a	2024–25f	2029–30f	Unit	2023–24a	2024–25f	2029–30f	2023–24a	2024–25f	2029–30f
Iron ore	US$/t	103	86	76	Mt	898	902	936	141	117	81
LNG	A$/GJ	16	17	12	Mt	81	80	78	70	72	45
Metallurgical coal	US$/t	285	204	202	Mt	151	156	169	56	41	33
Thermal coal	US$/t	136	127	113	Mt	205	213	199	38	34	22
Gold	US$/oz	2,079	2,668	2,405	t	258	230	320	34	36	30
Crude oil	US$/bbl	85	74	64	Kb/d	264	246	206	13	10	5.7
Copper	US$/t	8,680	9,356	10,806	Kt	753	865	1,137	12	15	18
Lithium	US$/t[b]	1,833	835	1,300	Kt[c]	431	478	578	10	5.2	8.2
Alumina	US$/t	363	580	424	Kt	15,877	15,040	16,632	8.7	13.2	8.3
Aluminium	US$/t	2,266	2,530	2,699	Kt	1,432	1,527	1,554	5.2	6.2	4.9
Zinc	US$/t	2,552	2,867	2,937	Kt	1,327	1,285	1,173	3.9	4.5	3.1
Nickel	US$/t	18,149	15,992	19,675	Kt	150	55	89	3.6	1.2	1.5
Uranium	US$/lb	82	73	98	t	5,742	6,039	8,305	1.2	1.4	1.7

Notes: **a** Export data covers both crude oil and condensate; **b** Spodumene; **c** Lithium carbonate equivalent **f** forecast. **Price information:** Iron ore fob (free-on-board) at 62 per cent iron content estimated netback from Western Australia to Qingdao China; Metallurgical coal premium hard coking coal fob East Coast Australia; Thermal coal fob Newcastle 6000 kc (calorific content); LNG fob Australia's export unit values; Gold LBMA PM; Alumina fob Australia; Copper LME cash; Crude oil Brent; Aluminum LME cash; Zinc LME cash; Nickel LME cash; Lithium spodumene ore.
Sources: ABS (2025); LME (2025); London Bullion Market Association (2025); The Ux Consulting Company (2025); US Department of Energy (2025); Metal Bulletin (2025); Japan Ministry of Economy, Trade and Industry (2025); Department of Industry, Science and Resources (2025).

Figure 1.15: Australia's major resource and energy commodity exports, 2024–25 dollars



	% change from 2023–24			CAGR % change from 2023–24		
	2024–25 f			2029–30 z		
	volume	EUV	value	volume	EUV	value
Iron ore	0	-18	-17	1	-10	-9
LNG	-2	4	2	-1	-7	-7
Metallurgical coal	3	-29	-27	2	-10	-8
Gold	-11	18	6	4	-5	-2
Thermal coal	4	-16	-13	0	-9	-9
Copper	15	9	26	7	0	7
Alumina	-5	60	52	1	-2	-1
Lithium	11	-55	-50	5	-8	-4
Oil & condensate	-7	-16	-22	-4	-9	-13
Aluminium	7	11	18	1	-2	-1
Zinc	-3	19	16	-2	-2	-4
Bauxite	8	6	15	1	-3	-1

Notes: **f** forecast; **z** projection. EUV is export unit value
Source: ABS (2025) International Trade in Goods and Services, 5368.0; Department of Industry, Science and Resources (2025)

Macroeconomic Outlook

Share of global GDP and economic growth, 2023*

Country	China	US	EU	India	ASEAN	Japan	S Korea	Taiwan	**Australia**
Per cent share of global GDP (PPP)	19	15	15	8	5	4	2	1	1
Yearly growth	▲5.2%	▲2.9%	▲0.6%	▲8.2%	▲4.0%	▲1.7%	▲1.4%	▲1.3%	▲**2.0%**
Share of Australia's 2-way trade	26%	8%	9%	4%	15%	10%	6%	3%	–

*most recent data available

Global overview

- The global economy has deteriorated slightly since late 2024 and risks to global growth remain weighed to the downside to 2030.
- Global industrial production growth improved through 2024, China accounted for 80% of the growth in global output.
- Chinese growth prospects improved modestly, strengthening the outlook.

Global risks

- Trade and geoeconomic fragmentation.

Source: IMF; ABS; OCE

2.1 Summary

- The global macroeconomic outlook has deteriorated slightly since the December 2024 REQ. While economic and industrial conditions improved throughout 2024, leading to forecast upgrades by the IMF, downside risks to global growth and trade are both rising and being realised.
- Moderating inflation and falling interest rates signal an end to the high-interest rate cycle. However, elevated trade and economic policy uncertainty present risks to both global trade and further disinflation.
- Robust growth is expected by the IMF for Australia's major trading partners, returning to trend over the medium-term. Chinese growth prospects have improved with industrial sector out-performance countering slowing declines in the real estate sector, and further fiscal support aimed at addressing weak domestic demand.

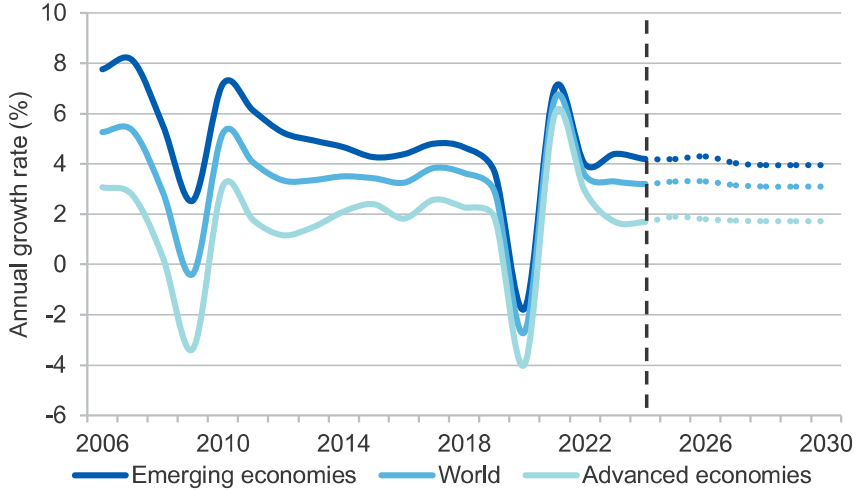
2.2 World economic outlook

Global growth is steady, but trade policy restrictions may dampen global growth and industrial production

The International Monetary Fund's (IMF) January 2025 outlook for world economic growth was largely unchanged from its October 2024 outlook, at 3.3% in 2025. Growth in 2025 is forecast to be 3.3% — a slight upgrade from the prior forecast, continuing at 3.3% in 2026 (Figure 2.1). Over the 5-year outlook, global growth is expected to trend down to 3.1%. Growth in major emerging economies China and India is expected to account for a major share of global growth by 2029, while growth in advanced economies is expected to ease towards long-run potential growth of 1.7% from 2027.

By way of comparison, the OECD's March 2025 *Interim Economic Outlook* projects global growth slowing to 3.1% in 2025 and 3.0% in 2026. The Outlook highlights a range of risks, including trade fragmentation and macroeconomic volatility. An unexpected downturn, policy change or deviation from the projected disinflation path could trigger market corrections, significant capital outflows, and exchange rate fluctuations,

Figure 2.1: IMF GDP growth forecasts



Source: IMF (October 2024, January 2025)

particularly in emerging markets. The OECD highlights that high public debt levels and elevated asset valuations in many countries heighten these risks.

At the country-level, the OECD forecast weaker growth than the IMF for the United States in 2025 and 2026, and for China in 2026 (Table 2.1). This difference is driven largely by the OECD's expectations for the economic impacts of announced tariffs from April 2025 onwards.

Table 2.1: GDP growth forecasts by the IMF and OECD in Q1 2025

	2025		2026	
	IMF	OECD	IMF	OECD
World	3.3%	3.1%	3.3%	3.0%
United States	2.7%	2.2%	2.1%	1.6%
China	4.6%	4.8%	4.5%	4.4%
Euro Area	1.0%	1.0%	1.2%	1.2%

Source: IMF (January 2025); OECD (March 2025).

The IMF downgraded its world trade outlook from October 2024, on account of sharp increases in trade policy uncertainty and expectations for tighter trade restrictions. World trade volumes are now expected by the IMF to grow by 3.2% in 2025 (-0.2 ppt) and 3.3% in 2026 (-0.1 ppt).

Risks to this outlook are tilted to the downside due to heightened trade policy uncertainty at the time of writing. Any additional trade restrictions would likely reduce global trade volumes, with the manufacturing sector likely the most impacted.

The global monetary easing cycle has commenced, however further easing will hinge on inflation remaining under control

Inflation continues to moderate in most advanced economies, with most central banks signalling that inflation is returning to target levels. Reductions in core inflation (which excludes food and energy) have generally continued in line with (or ahead of) central banks' expectations. Global shipping costs have eased from their July 2024 peak, and supply chain pressure remains contained at or below average levels. Services inflation continues to decline, although rent inflation remains high in several countries. Goods inflation has been on a gradual increasing trend, recently returning to historical averages.

The return of inflation to near central bank targets has seen some central banks shift focus to mitigating risks such as slowing economic activity and labour market weakness.

Growth in major trading partners to slow over the medium-term

GDP growth in Australia's major trading partners is forecast by the RBA to ease gradually from 3.5% at the end of 2024 to 3.4% at the end of 2026. This will then ease further by the end of the outlook period in line with slowing growth in China. This growth outlook remains weak in historical terms; however, it has improved relative to expectations at the time of the December 2024 and March 2024 REQ publications. This largely reflects higher growth forecasts for China, Japan and India.

China's economy grew by 5.4% year-on-year in the December quarter 2024. Growth through the year was driven by industrial production and net exports — equivalent to half of growth in the December quarter — as the nation's real estate sector and consumer demand continued to drag. Of note, investment and production from clean energy sectors is estimated to have accounted for a quarter of China's GDP growth in 2024[1] — 75% of this came from the three priority sectors of electric vehicles, solar panels and batteries. Investment and output from clean energy sectors now account for a larger share of China's GDP than real estate sales.

Looking forward, China's government has set a GDP growth target of around 5% in 2025, indicating further policy support may come to prop up domestic demand. Policy support is expected to be delivered through use of fiscal space: announcing higher ultra-long special treasury bond issuance and a targeted fiscal deficit of around 4% of GDP. In their January 2024 update, the IMF upgraded their forecasts for China's economy to 4.6% in 2025 (+0.1 ppt) and 4.5% in 2026 (+0.4ppt), on account of continued policy support, dissipating trade policy uncertainty, and announced increases to the retirement age.

United States annual GDP growth fell to an almost 2-year low of 2.5% in the December quarter 2024. This follows US growth outperforming expectations for much of the year due to robust domestic demand, easing monetary policy and financial conditions. The IMF upgraded their forecasts for US GDP growth in their January outlook, now expecting 2.7% in 2025 (+0.5 ppt) and 2.1% in 2026. The IMF cited robust labour markets and accelerating investment as factors supporting the US growth outlook, as well as potential upside risks stemming from fiscal expansion (e.g. tax cuts). Risks that may dampen the longer-term US growth outlook were also raised by the IMF, such as inflationary pressures and labour force disruptions (associated with reduced migration flows).

[1] Myllyvirta, L et al. (2025), *Analysis: Clean energy contributed a record 10% of China's GDP in 2024*, via Carbon Brief: link.

2.3 Global industrial conditions

Goods demand improved in 2024, with China to continue dominating the industrial rebound

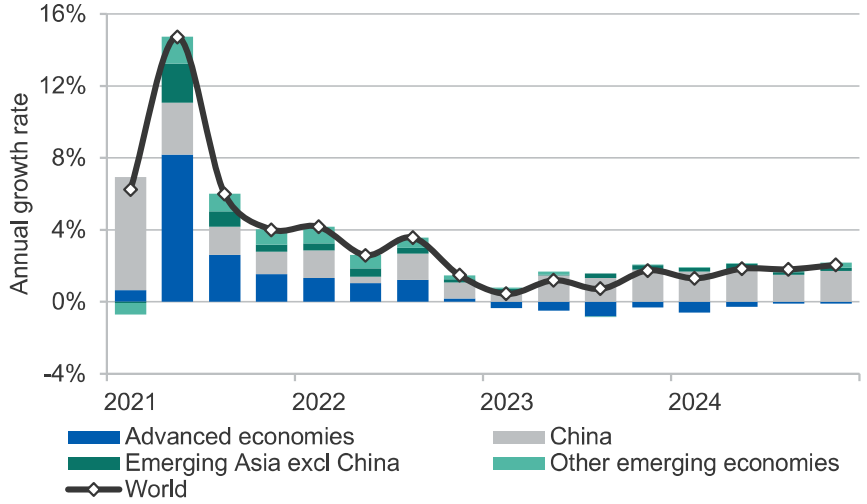
Global industrial production improved throughout 2024, increasing by 1.8% on average — up from 1.0% in 2023. This was largely driven by China, accounting for more than 80% of the growth in global output (Figure 2.2). Growth was also supported by expansions in emerging Asia and high-tech export economies such as South Korea, Taiwan and Singapore. Weak and declining output in advanced economies continued to be a drag on global growth in 2024, with Europe accounting for much of this decline.

China's industrial production growth rebounded throughout the year to be 6.4% in December 2024 amid government efforts to spur growth. Ongoing weakness in Europe's industrial sector points to a slow recovery among its major producers. Europe's prolonged manufacturing downturn — driven by energy prices and weak consumer demand — has continued into the first quarter of 2025. US industrial production declined throughout 2024, with durable product (e.g. automotive and aerospace) manufacturing weighing on growth.

The upswing in global industrial production has been supported by a recovery in consumer demand. Global merchandise imports returned to growth in mid-2024 (Figure 2.3), led by demand for imported goods in ex-European advanced economies. Similar to trends in global industrial production, China accounted for most (around 70%) of the growth in merchandise exports since the December quarter 2023 when trade started recovering.

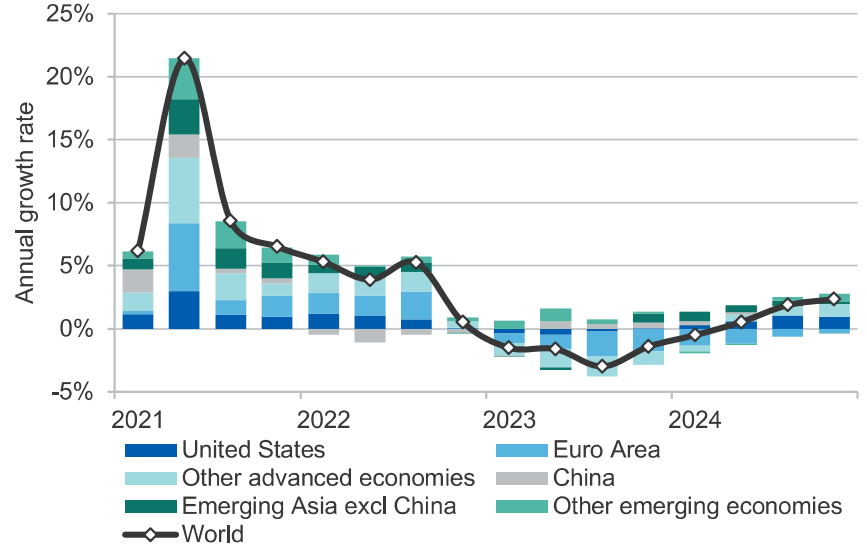
Forward indicators of global manufacturing activity have improved so far in 2025. Growth in both output and new orders in major manufacturing economies have led the JP Morgan Global Manufacturing Purchasing Managers Index (PMI) back into expansionary territory for the first two months this year. While several indicators point to lingering concerns, such as a two-year high in input cost inflation and continued weakness in export orders, business confidence rose to a nine-month high.

Figure 2.2: Contributions to growth in global industrial production



Source: CPB Netherlands Bureau for Economic Policy Analysis (2025)

Figure 2.3: Contributions to growth in global merchandise imports



Source: CPB Netherlands Bureau for Economic Policy Analysis (2025)

The Caixin China General Manufacturing PMI rose further into expansion territory in February 2025, with output and new orders growth at a three-month high. India's manufacturing PMI remained well in expansion territory in February 2025, due to expanding new orders and manufacturing output. Output growth eased to a 13-month low in India, but buoyant demand kept business sentiment high. Manufacturing PMI surveys showed rising export orders in China and India, defying trends elsewhere and underlining these nations' dominance in the rebound of merchandise exports from late 2023.

Japan's manufacturing sector was in contractionary territory for an 8th consecutive month, reflecting continued weakness in demand. Firms cited weak client confidence in key markets such as the US, EU and China, and business confidence dipped to a 5-year low. Korea's manufacturing sector has been tracking relatively flat since November 2024, with growth in output/sales offset by weak domestic demand and input price pressures.

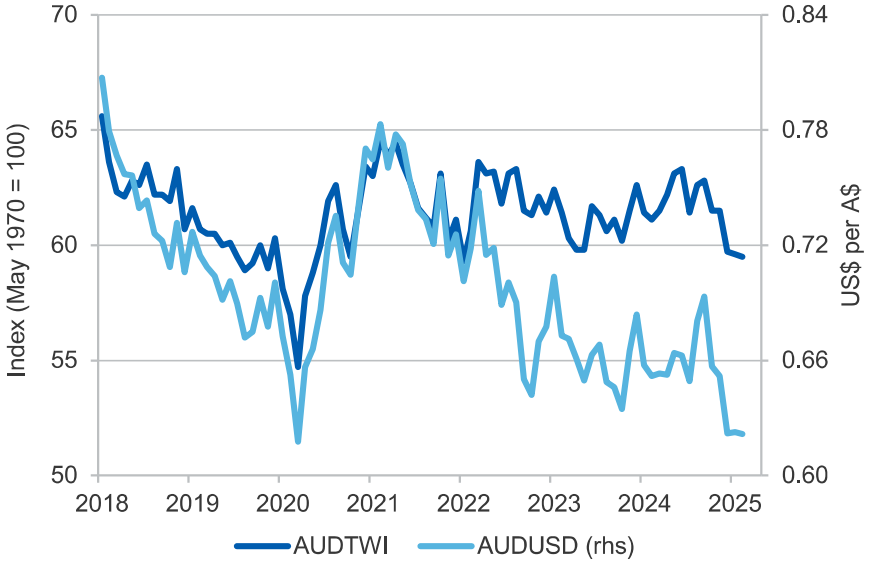
Global industrial production growth is forecast by Wood Mackenzie to rebound to 3.1% in 2025 and 3.2% in 2026, following 2 years of below-average growth. Global industrial production growth is then expected to moderate over the medium-term to around 2.3% by 2030. This decline is projected in line with a slowing in global GDP towards trend growth and a maturing of China's industrial sector — China's IP growth is expected to ease from 4.9% in 2025 to 2.9% in 2030.

2.4 Revisions

Exchange rate assumptions have been revised down

Since the release of the December 2024 REQ, the Australian dollar has declined against both a strengthening US dollar and in trade-weighted terms (Figure 2.4). Australian export value forecasts in this REQ adopt the market consensus on the outlook for the AUD/USD. The consensus is for the AUD/USD to appreciate over the outlook period, as interest rates decline faster in the US than in Australia. Adopting recent consensus forecasts leads to downgrades of about US$0.03 in 2025 and 2026 compared with the December 2024 REQ. This also represents a downgrade of US$0.05 in 2025 and US$0.06 in 2026 compared with the assumptions set in the March 2024 REQ.

Figure 2.4: Australian trade-weighted index, US dollar exchange rate



Source: RBA (2025)

Table 2.2: IMF annual GDP growth projections for major trading partners

	2024	2025[a]	2026[a]	2027[a]	2028[a]	2029[a]	2030[a]
World [b]	**3.2**	**3.3**	**3.3**	**3.2**	**3.1**	**3.1**	**3.1**
China [c]	4.8	4.6	4.5	3.6	3.4	3.4	3.4
Japan	-0.2	1.1	0.8	0.6	0.6	0.6	0.6
Republic of Korea	2.2	2.0	2.1	2.1	2.1	2.1	2.1
India [d]	6.5	6.5	6.5	6.5	6.5	6.5	6.5
ASEAN-5 [e]	4.5	4.6	4.5	5.0	5.0	5.0	5.0
Eurozone	1.0	1.4	1.7	1.6	1.6	1.6	1.6
United States	2.8	2.7	2.1	2.1	2.1	2.1	2.1

Notes: **a** Assumption; **b** Calculated by the IMF using purchasing power parity (PPP) weights for nominal country gross domestic product; **c** Excludes Hong Kong; **d** Based on fiscal years, starting in April; **e** Indonesia, Malaysia, Philippines, Thailand and Vietnam.
Sources: IMF (2025); Bloomberg (2025)

Table 2.3: Exchange rate and inflation assumptions

	2024	2025[a]	2026[a]	2027[a]	2028[a]	2029[a]	2030[a]
AUD/USD exchange rate	0.66	0.63	0.67	0.69	0.74	0.75	0.75
Inflation rate[b]							
United States	3.0	2.0	2.1	2.1	2.1	2.1	2.1
	2023–24	**2024–25[a]**	**2025–26[a]**	**2026–27[a]**	**2027–28[a]**	**2028–29[a]**	**2029–30[a]**
Australia	4.2	2.5	3.3	2.8	2.5	2.5	2.5

Notes: **a** Assumption; **b** Average CPI growth over the specified year (fiscal or calendar).
Sources: ABS (2025); Bloomberg (2025); Department of Industry, Science and Resources (2025); IMF (2025); RBA (2025).